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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**

SARKHAN NABI, individually and on behalf of all
others similarly situated,

Plaintiff,

v.

ROBINHOOD FINANCIAL, LLC, a Delaware
LLC, and ROBINHOOD SECURITIES, LLC, a
Delaware LLC,

Defendants.

Case No.

CLASS ACTION COMPLAINT

JURY TRIAL DEMANDED

1 Plaintiff Sarkhan Nabi (“Plaintiff”), individually and on behalf of all others similarly
 2 situated, by and through his attorneys, makes the following allegations pursuant to the investigation
 3 of his counsel and based upon information and belief, except as to allegations specifically pertaining
 4 to himself and his counsel, which are based on personal knowledge.

5 **NATURE OF THE ACTION**

6 1. This is a class action suit brought against Robinhood Financial, LLC (“Robinhood
 7 Financial”) and Robinhood Securities, LLC (“Robinhood Securities”) (collectively, “Defendants” or
 8 “Robinhood”) for material misrepresentations and omissions by Robinhood relating to its revenue
 9 sources, statements concerning the execution quality Robinhood achieved for consumers’ orders,
 10 and Robinhood’s failure to satisfy its duty of best execution.

11 2. Robinhood is a multi-billion dollar online brokerage firm founded in 2013. In order
 12 to distinguish itself from competitors, Robinhood engaged in an aggressive marketing campaign
 13 promoting its “commission free trading.” This purported advantage, however, came with a catch:
 14 Robinhood’s customers, such as Mr. Nabi, received inferior execution prices compared to what they
 15 would have received from Robinhood’s competitors. In fact, the difference in execution price
 16 typically exceeded the commission Robinhood’s competitors would have charged.

17 3. Robinhood engaged in this deceptive campaign while failing to disclose its inferior
 18 execution prices to consumers.

19 4. Plaintiff brings this action on behalf of himself and the putative class against
 20 Defendants for: (1) Violations of California Consumers Legal Remedies Act (“CLRA”), Civil Code
 21 § 1750, *et seq.*; (2) Violations of California Unfair Competition Law (“UCL”), Bus. & Prof. Code §
 22 17200, *et seq.*; (3) Violations of California False Advertising Law (“FAL”) Bus. & Prof. Code §
 23 17500, *et seq.*; (4) Violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-
 24 5; (5) Negligent Misrepresentation; (6) Breach of Implied Covenant of Good Faith and Fair
 25 Dealing; and (7) Breach of Fiduciary Duty.

26 5. Plaintiff seeks an order for relief including, but not limited to, the following: (1)
 27 requiring Defendants to pay damages and restitution to Plaintiff and the putative Class; (2)
 28 enjoining Defendants from further legal violations through Robinhood’s payment for order flow

1 collection scheme; and (3) requiring Defendants to publicly correct the false and misleading
2 statements and omissions alleged herein.

3 **THE PARTIES**

4 6. Plaintiff Sarkhan Nabi is a California resident who lives in Tarzana, California. Mr.
5 Nabi resides in Tarzana and has an intent to remain there and is therefore a domiciliary of
6 California. Mr. Nabi opened an account with Robinhood in 2017. The primary reason Mr. Nabi
7 chose Robinhood over its competitors was due to their advertised commission free trading. Since
8 2017, Mr. Nabi has engaged in hundreds of trades, investing tens of thousands of dollars into his
9 Robinhood account. Currently, Mr. Nabi's account balance stands at approximately \$105,000.00.
10 Due to Defendants' misleading statements and omissions, Mr. Nabi was completely unaware that
11 Robinhood was executing trades at inferior prices compared to its competitors. Had Robinhood
12 disclosed this practice to Mr. Nabi he would not have chosen to open an account with Robinhood,
13 nor would he have engaged in any trades with Robinhood.

14 7. Defendant Robinhood Financial, LLC is a Delaware LLC with its principal place of
15 business located at 85 Willow Road, City of Menlo Park, California.

16 8. Defendant Robinhood Securities, LLC is a Delaware LLC with its principal place of
17 business located at 85 Willow Road, City of Menlo Park, California.

18 **JURISDICTION AND VENUE**

19 9. This Court has subject matter jurisdiction pursuant to 28 U.S.C. § 1332(d)(2)(A)
20 because this case is a class action where the aggregate claims of all members of the proposed class
21 are in excess of \$5,000,000.00, exclusive of interest and costs, and at least one member of the
22 proposed class is citizen of state different from Defendants.

23 10. This Court has personal jurisdiction over Defendants because they are headquartered
24 in this District, and many of the acts and transactions giving rise to this action occurred in this
25 District.

26 11. Venue is proper in this Court pursuant to 28 U.S.C. § 1391 because many of the acts
27 and transactions giving rise to this action occurred in this District, and because Defendants reside in
28 this District.

STATEMENT OF FACTS**Background**

12. Robinhood offers self-directed securities brokerage services to customers by means of its website and smartphone applications. Robinhood is a Commission-registered broker-dealer and a member of Financial Industry Regulatory Authority (“FINRA”). Robinhood Financial acts as an introducing broker and has a clearing arrangement with Robinhood Securities. Beginning in November 2019, Robinhood began sending all customer orders for trade execution to Robinhood Securities. When customers open accounts with Robinhood, they enter into a customer agreement with Robinhood Financial and Robinhood Securities.

13. Robinhood was founded in 2013 and began offering retail brokerage accounts to the general public in March 2015. Robinhood distinguished itself from other retail-oriented broker dealers by, among other things, allowing customers to place orders to buy and sell securities without paying a trading commission. It was this price-value proposition that allowed Robinhood to grow rapidly.

14. By June 2019, Robinhood had 9 million approved customer accounts.

Principal Trading Firms And Payment For Order Flow

15. Rather than sending customer orders to buy or sell equity securities directly to national exchanges, Robinhood, like other retail broker-dealers, routed its orders to other broker-dealers (often referred to as “principal trading firms” or “electronic market makers”) to either execute those orders or route them to other market centers.

16. Principal trading firms attempt to profit from executing large volumes of retail buy and sell orders either by taking the other of customer orders and exiting the positions at a profit, which is known as “internalization,” or by routing the orders to other market centers.

17. Principal trading firms offer incentives to retail broker-dealers to send them order flow. One such incentive is “payment for order flow,” which is defined in Rule 10b-10(d)(8) of the

1 Exchange Act to include any monetary payment, service, property, or other benefit that results in
2 remuneration, compensation, or consideration to a broker-dealer in return for the routing of
3 customer orders.

4 18. Since it began operating as a broker-dealer, Robinhood, like other retail broker-
5 dealers, has received payment for order flow in exchange for routing its customer orders to principal
6 trading firms.

7 19. SEC rules permit the receipt of payment for order flow by broker-dealers as long as
8 it does not interfere with their efforts to obtain best execution, and as long as the routing of that
9 order flow, as well as a description of all terms of any such arrangements that may influence the
10 broker-dealer's order routing decision, are disclosed in quarterly reports filed pursuant to 17 CFR §
11 242.606 (Disclosure of order routing information, "SEC Rule 606").
12

13 20. Another incentive that principal trading firms may provide to retail broker-dealers is
14 "price improvement" on customer executions. Price improvement occurs when a customer order
15 receives an execution at a price that is superior to the best available quotation then appearing on the
16 public quotation feed, that is, by executing a "buy" order at a price lower than the lowest prevailing
17 offer or executing a "sell" order at a price high than the highest prevailing bid.
18

19 21. Price improvement creates a direct financial benefit for the customer, since the
20 customer receives a better price than he or she would have received had the order been executed at
21 the national best bid and offer ("NBBO") on the public quotation feed.
22

23 22. In practice, most retail broker-dealers obtain price improvement on the vast majority
24 of customer orders that they send to principal trading firms.

25 **The Duty Of Best Execution**

26 23. Broker-dealers such as Robinhood owe their customers a duty of "best execution."
27 Best execution requires that a broker-dealer endeavor to execute customer orders on the most
28

1 favorable terms reasonably available in the market under the circumstances. This includes taking
2 into account price, order size, trading characteristics of the security, as well as the potential for price
3 improvement and other factors. *See Newton v. Merrill, Lynch, Pierce, Fenner & Smith*, 135 F.3d
4 266, 270 & n.2 (3d Cir. 1998); *Marc N. Geman*, Securities Exchange Act Release No. 43963 (Feb.
5 14, 2001) (Commission Opinion).

6 24. Although a broker-dealer is not required to examine every customer order
7 individually for compliance with its duty of best execution, it must undertake regular and rigorous
8 reviews of the quality of its customer order executions. *See Payment for Order Flow*, Securities
9 and Exchange Commission Final Rule Release, Exchange Act Release No. 34902, 59 Fed. Reg.
10 55006, at 55009 (Oct. 27, 1994) (“*Payment for Order Flow Release*”).

12 25. The duty of best execution derives from, among other sources, the common law
13 agency duty of loyalty, which obligates an agent to act exclusively in the principal’s best interest.
14 Payment for order flow has the potential to create a conflict of interest between the broker-dealer
15 and its customer because payment for order flow is a benefit that does to the broker-dealer itself,
16 whereas other incentives that may be obtained for routing order flow, such as price improvement,
17 benefit the broker-dealer’s customers. A broker-dealer must not allow payment for order flow to
18 interfere with its efforts to obtain best execution. *See Payment for Order Flow Release*, at 55009 &
19 n.28.
20

21 **Robinhood’s Initial Public Messaging Concerning Payment For Order Flow**

22 26. In 2014, prior to its public launch, Robinhood published an FAQ page on its website
23 providing information about the company and its anticipated brokerage operations. The first
24 version of the FAQ disclosed that Robinhood anticipated receiving payment for order flow in its
25 answer to the question “How does Robinhood make money?”
26
27
28

1 27. Also, in 2014, a best-selling author published a book that chronicled various aspects
2 of the electronic securities trading industry and portrayed payment for order flow as a controversial
3 practice.¹ Several other news organizations similarly published articles discussing payment for
4 order flow and other issues concerning electronic trading venues.²

5 28. Senior Robinhood personnel were aware of these publications and the ensuing
6 controversy regarding payment for order flow and its association with principal trading firms
7 (which were also sometimes referred to as “high frequency trading firms”). They became
8 concerned that if the public associated Robinhood with payment for order flow and high frequency
9 trading firms, it could be viewed as controversial by Robinhood’s customers.

11 29. In light of these concerns, in December 2014, Robinhood removed the reference to
12 payment for order flow from its answer to the “How does Robinhood make money” FAQ and
13 created a new FAQ page that specifically discussed payment for order flow.

14 30. This new FAQ page stated that the payment for order flow revenue Robinhood
15 received at the time was “indirect” and “negligible.” It also stated that if payment for order flow
16 ever became a direct or significant source of revenue, Robinhood would inform customers of those
17 facts on the “How does Robinhood make money” FAQ page.

19 31. In the first quarter of 2015, Robinhood launched its trading platform to the public.
20 Although the company’s overall revenue was modest in 2015 through mid-2016, during that time
21 payment for order flow comprised more than 80% of the company’s revenue.

22 **Robinhood Received Unusually High Payment For Order Flow Rates And Failed To Conduct**
23 **Rigorous Reviews Of Its Execution Quality**

24 32. Initially, Robinhood relied on another broker-dealer to provide both clearing and
25

27 ¹ <https://www.pbs.org/newshour/show/flash-boys-investigates-high-frequency-traders-anticipate-wall-streets-next-move-faster>.

28 ² <https://www.ft.com/content/97810c5e-fd1c-11e3-8ca9-00144feab7de>.

1 order execution services for Robinhood customer orders. That broker-dealer routed Robinhood
2 customer orders to principal trading firms, received payment for order flow in return, and shared a
3 portion of that payment for order flow with Robinhood.

4 33. During the first half of 2016, Robinhood decided to start routing customer orders
5 directly to principal trading firms and cease relying on the other broker-dealer for order execution
6 routing services. By doing so, Robinhood could earn additional payment for order flow revenue.

7
8 34. On or around May 2016, Robinhood began negotiations with a number of principal
9 trading firms about potentially routing Robinhood customer orders to those entities.

10 35. In the course of those negotiations, certain of the principal trading firms told
11 Robinhood that there was a trade-off between payment for order flow on the one hand and price
12 improvement on the other: If Robinhood negotiated for higher payment for order flow revenue,
13 according to the principal trading firms, there would be less money available for the principal
14 trading firms to provide price improvement to Robinhood's customers.

15
16 36. At least one principal trading firm communicated to Robinhood that large retail
17 broker-dealers that receive payment for order flow typically receive four times as much price
18 improvement for customers as they do payment for order flow for themselves—an 80/20 split of the
19 value between price improvement and payment for order flow.

20 37. Robinhood negotiated a payment for order flow rate that was substantially and
21 unusually higher than the rate the principal trading firms paid to other retail broker-dealers—which
22 resulted in approximately a 20/80 split of the value between price improvement and payment for
23 order flow. Robinhood explicitly agreed to accept less price improvement for its customers than
24 what the principal trading firms were offering, in exchange for receiving a higher rate of payment
25 for order flow for itself.
26
27
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1 38. Robinhood intentionally omitted these details from its FAQ page. As such,
2 Robinhood customers were completely unaware of the unfavorable terms Robinhood negotiated
3 with the principal trading firms.

4 39. In September 2016, Robinhood began routing customer orders directly and solely to
5 principal trading firms. Around the same time, Robinhood formed a “Best Execution Committee”
6 to monitor the speed and the prices at which the principal trading firms were executing Robinhood
7 customer orders. The Committee met at least once per month and included Robinhood’s General
8 Counsel. From October 2016 through at least June 2019, the Committee observed that Robinhood
9 was not obtaining much price improvement on its customer orders in equity securities, particularly
10 on orders of 100 shares or more.

12 40. Meanwhile, in 2017, Robinhood developed a proprietary routing algorithm, known
13 as a smart order router, designed to make the principal trading firms with which Robinhood had
14 payment for order flow arrangements compete for order flow by routing customer orders to the
15 principal trading firm that had provided the most price improvement for that stock over the prior 30
16 days. However, the smart order router did not address Robinhood’s high payment for order flow
17 rates or any potential execution prices that may be available at venues that did not agree to pay
18 those rates. Even with its smart order router, Robinhood customer orders received poor execution
19 quality.
20

21 41. Although Robinhood was on notice that its high payment for order flow rates could
22 lead to less price improvement for its customers, the Best Execution Committee did not conduct
23 adequate, regular, and rigorous reviews to ensure that Robinhood was satisfying its best execution
24 obligations. The Committee took no steps to determine whether Robinhood’s payment for order
25 flow rates were having a negative impact on the execution prices that Robinhood’s customers
26 received.
27
28

1 42. Until October 2018, the Committee did not consider how Robinhood's price
2 improvement statistics compared to those of other retail broker-dealers, or to the retail order
3 execution market generally.

4 43. In mid-2017, when one of the principal trading firms to which Robinhood routed
5 order flow told Robinhood it would no longer agree to pay Robinhood's unusually high payment for
6 order flow rates, but would pay a lower payment for order flow rate, Robinhood stopped routing
7 customer orders to that principal trading firm.

8 44. When certain Robinhood personnel began comparing the firm's order execution
9 quality to competitors in October 2018, they learned that for most execution quality metrics,
10 including the percentage of orders receiving price improvement, Robinhood's execution quality was
11 worse.
12

13 45. By March 2019, Robinhood had conducted a more extensive internal analysis, which
14 showed that its execution quality and price improvement metrics were substantially worse than
15 other retail broker-dealers in many respects, including the percentage of orders that received price
16 improvement and the amount of price improvement, measured on a per order, per share, and per
17 dollar traded basis. Senior Robinhood personnel were aware of this analysis.
18

19 46. However, Robinhood's Best Execution Committee did not take appropriate steps to
20 assess whether, in light of this information, Robinhood was complying with its duty to seek best
21 execution of customer orders.
22

23 47. Robinhood's failure from October 2016 through at least June 2019 to conduct
24 adequate, regular, and rigorous reviews that involved benchmarking its execution quality against
25 competitor broker-dealers to determine whether it was obtaining the best terms reasonably available
26 for customer orders, violated Robinhood's duty of best execution.
27
28

Robinhood Misleadingly Omitted Payment For Order Flow From Descriptions Of Its Revenue Sources

48. By the end of 2016, Robinhood was generating a significant amount of revenue, the majority of which its controlling officers knew continued to come from payment for order flow. However, contrary to what the company had said in the payment for order flow FAQ, Robinhood did *not* disclose the new payment for order flow arrangements in its answer to the “How Robinhood Makes Money” FAQ on its website.

49. Instead, at some point during 2016, Robinhood deleted the payment for order flow FAQ. Robinhood kept no records showing when the payment for order flow FAQ was deleted, why it was deleted, or who was responsible for approving its removal.

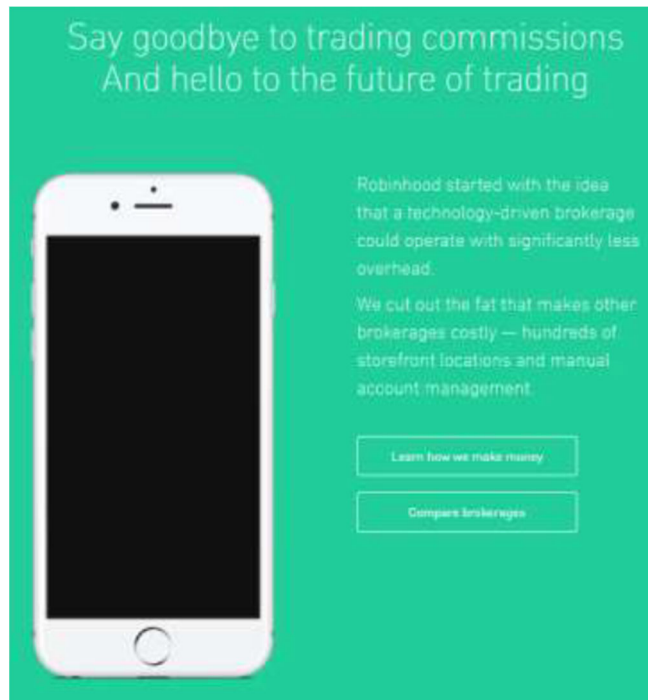
50. Between late 2016 and September 2018, Robinhood continued to grow rapidly. Although payment for order flow remained the company’s largest revenue source throughout this period, Robinhood did not include payment for order flow as a revenue source in its answer to the “How Robinhood Makes Money” FAQ on its website.

51. The company failed to update the FAQ to include payment for order flow despite the fact that, in 2016 and 2017, the company did update the FAQ to include two other, smaller revenue sources: subscription-based memberships and interest on securities lending. The version of the “How Robinhood Makes Money” FAQ page that was posted on Robinhood’s website from approximately April 2017 through September 2018 stated:



52. Robinhood kept incomplete records of its updates to the “How Robinhood Makes Money” FAQ page, including incomplete records of who was responsible for approving updates to that page.

53. The “How Robinhood Makes Money” FAQ was featured in certain of Robinhood’s customer communications. From at least February 22, 2016 to October 26, 2017 Robinhood displayed a link to the “How Robinhood Makes Money” FAQ on the home page of its website:



54. Moreover, Robinhood instructed customer service representatives to direct customers to the “How Robinhood Makes Money” FAQ page or use the language of the misleading FAQ answer when responding to general questions about how Robinhood made money. Thus, in response to inquiries from its customers between 2015 and August 2018 about how Robinhood made money—approximately 150 inquiries in total—Robinhood’s customer service representatives did not identify payment for order flow as one of the company’s revenue sources.

55. In fact, training documents for customer service representatives in early 2018 explicitly instructed them to “avoid” talking about payment for order flow and stated that it was

1 “incorrect” to identify payment for order flow in response to the question how Robinhood makes
2 money.

3 56. Throughout this period, Robinhood disclosed some information about its receipt of
4 payment for order flow as required in SEC-mandated reports pursuant to Rule 606. The company
5 included these reports on the “Disclosure Library” page on its website that included a number of
6 other legally-mandated disclosures. However, the company did not feature the “Disclosure
7 Library” or the reports contained in that library prominently in its communication strategy, like it
8 did with the “How Robinhood Makes Money” FAQ page.
9

10 57. Robinhood’s customer agreements and trade confirmations only stated that
11 Robinhood “may” receive payment for order flow.

12 **Robinhood Falsely Claimed That Its Execution Quality Matches Or Beats That Of Its**
13 **Competitors**

14 58. In response to media reports in September and October 2018 about Robinhood’s
15 payment for order flow rates, Robinhood added payment for order flow to the list of revenue
16 sources appearing on the “How Robinhood Makes Money” FAQ page.

17 59. But on October 12, 2018, it also published a new FAQ page that discussed payment
18 for order flow and Robinhood’s order execution quality. The new FAQ page stated that
19 Robinhood’s “execution quality and speed matches or beats what’s found at other major
20 brokerages.” It also cited one statistic related to execution speed and one statistic related to the
21 percentage of orders for S&P 500 stocks executed within the NBBO:
22

23 **What is the execution quality for orders on Robinhood?**

24 Reg NMS ensures your order gets executed at the national best bid and offer, or better, at
25 the time of execution. Our execution quality and speed matches or beats what’s found at
26 other major brokerages. Even when measured at the time of routing, our customers’
27 orders get executed at the NBBO or better. By way of example, in August 2018, 99.12% of
28 our customers’ marketable orders were executed at the the national best bid and offer or
better with an execution speed of 0.08 seconds from routing to execution (for S&P 500
stocks, during market hours).

1 60. However, the internal analyses referenced in the paragraphs above that Robinhood
2 conducted in October 2018 and March 2019 showed that Robinhood's execution quality was worse
3 than that of other large retail broker-dealers in many respects. In particular, in October 2018, when
4 certain Robinhood employees began gathering data to compare Robinhood's execution quality
5 metrics to those of its competitors, other Robinhood personnel remarked that most of Robinhood's
6 metrics were worse and discussed the execution quality metrics with certain senior Robinhood
7 personnel.
8

9 61. A more extensive analysis Robinhood conducted in March 2019 stated that "[n]o
10 matter how we cut the data, our % orders receiving price improvement lags behind that of other
11 retail brokerages by a wide margin." Robinhood further found that the amount of price
12 improvement obtained for Robinhood customers was far lower than at competing broker-dealers,
13 measured on a per order, per share, and per dollar traded basis. Senior Robinhood personnel were
14 aware of this analysis.
15

16 62. For most orders of more than 100 shares, the analysis concluded that Robinhood
17 customers would be better off trading at another broker-dealer because the additional price
18 improvement that such orders would receive at other broker-dealers would likely exceed the
19 approximately \$5 per-order commission costs that those broker-dealers were then charging.
20

21 63. The analysis further determined that the larger the order, the more significant the
22 price improvement losses for Robinhood customers—for orders over 500 shares, the average
23 Robinhood customer order lost over \$15 in price improvement compared to Robinhood's
24 competitors, with that comparative loss rising to more than \$23 per order for orders over 2,000
25 shares.
26
27
28

1 64. Robinhood removed the claim about Robinhood's execution quality matching or
2 beating that of other broker-dealers from its FAQ in June 2019, after staff from the Commission's
3 Office of Compliance Inspections and Examinations raised concerns about that sentence.

4 65. Between October 2016 and June 2019, certain Robinhood orders lost a total of
5 approximately \$34.1 million in price improvement compared to the price improvement they would
6 have received had they been placed at competing retail broker-dealers, even after netting the
7 approximately \$5 per-order commission costs those broker-dealers were charging at the time.

8
9 **Plaintiff's Use Of Defendant's Services**

10 66. Plaintiff Sarkhan Nabi opened a Robinhood account in 2017.

11 67. Plaintiff chose to open an account with Robinhood due to their advertisements
12 promoting "commission free trading," which differentiated itself from competitors.

13 68. Since 2017 Plaintiff has made hundreds of transactions through Defendant's
14 platform. Several of those transactions have included orders of over 100 shares. Such purchases
15 include shares of U.S. based exchange-listed stocks in trades executed at purported market prices.

16 69. Plaintiff reasonably believed that each market order would be executed by
17 Robinhood at the best available price.

18 70. However, Robinhood's unusually high payment for order flow rates adversely
19 impacted the execution quality of Plaintiff's and putative Class members' market orders and
20 chances for price improvement.

21 71. Plaintiff was unaware that Robinhood negotiated such unusually high payment for
22 order flow rates because it did not make adequate disclosures on its website and mobile application.
23 Had Plaintiff been aware of Robinhood's unusually high payment for order flow system he would
24 not have chosen to invest tens of thousands of dollars through its investment platform.
25
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1 72. At all times relevant senior Robinhood personnel knew or should have known that
2 their market orders were not being executed at rates comparable to its competitors.

3 73. Defendants' knew or should have known that its advertisements offering
4 "commission free trading" was deceptive under the circumstances due to Robinhood's unusually
5 high payment for order flow rates. Defendants' knew or should have known that its execution
6 quality was so inferior it often times exceeded the commission rates charged by other broker-dealers
7 for comparable market orders.

8 74. Robinhood owes a duty to its account holders, like Plaintiff, a duty of best execution.
9

10 75. Such acts by Robinhood violated its duty of best execution owed to its account
11 holders.

12 76. Due to Robinhood's payment for order flow system, Plaintiff and putative Class
13 members suffered damages from Defendants' unlawful conduct and inferior execution quality.
14

15 **CLASS ALLEGATIONS**

16 77. Plaintiff brings this action on behalf of himself and as a representative of all
17 similarly situated individuals pursuant to Fed. R. Civ. P. 23 and proposes the following Class
18 definition: All persons within the United States who maintained a Robinhood account from
19 September 1, 2016 through present who executed market orders for which Defendants received
20 payment for order flow. Excluded from the Class are Defendants and their affiliates, parents,
21 subsidiaries, employees, officers, agents, and directors, as well as any judicial officers presiding
22 over this matter and the members of their immediate families and judicial staff.
23

24 78. Members of the Class are so numerous that their individual joinder herein is
25 impracticable. As of June 2019, Robinhood had approximately 9 million account holders. The
26 precise number of Class members and their identities are unknown to Plaintiff at this time but may
27 be determined through discovery. Class members may be notified of the pendency of this action by
28

1 mail and/or publication through the distribution records of Defendants.

2 79. Common questions of law and fact exist as to all Class members and predominate
3 over questions affecting only individual Class members. Common legal and factual questions
4 include, but are not limited to:

5 A. Whether the conduct and statements' of Robinhood officers, directors, and
6 employees misrepresented material facts about Defendants' business and
7 operations, including payment for order flow rates.

8 B. Whether federal securities laws were violated by Defendants' acts as alleged
9 herein;

10 C. Whether Defendants' conduct violated consumer protection acts;

11 D. Whether Defendants' conduct constitutes a breach of its fiduciary duties; and

12 E. Whether Defendants' conduct constitutes a breach of its duty of best execution.
13

14 80. The claims of the named Plaintiff are typical of the claims of the Class because the
15 named Plaintiff, like all other class members, held an account with Robinhood and was subject to
16 the same conduct and omissions by Defendants. Plaintiff, like all other class members, was
17 unaware of the unusually high payment for order flow rates negotiated by Defendants'. Plaintiff,
18 like all other class members, was unaware that such high payment for order flow rates materially
19 affected the execution quality and opportunity for price improvement for Plaintiff's market orders.
20

21 81. Plaintiff is an adequate representative of the Class because his interests do not
22 conflict with the interests of the Class members he seeks to represent, he has retained competent
23 counsel experienced in prosecuting class actions, and he intends to prosecute this action vigorously.
24 The interests of Class members will be fairly and adequately protected by Plaintiff and his counsel.
25

26 82. The class mechanism is superior to other available means for the fair and efficient
27 adjudication of the claims of Class members. Each individual Class member may lack the resources
28

1 to undergo the burden and expense of individual prosecution of the complex and extensive litigation
 2 necessary to establish Defendants' liability. Individualized litigation increases the delay and
 3 expense to all parties and multiplies the burden on the judicial system presented by the complex
 4 legal and factual issues of this case. Individualized litigation also presents a potential for
 5 inconsistent or contradictory judgments. In contrast, the class action device presents far fewer
 6 management difficulties and provides the benefits of single adjudication, economy of scale, and
 7 comprehensive supervision by a single court on the issue of Defendants' liability. Class treatment
 8 of the liability issues will ensure that all claims and claimants are before this Court for consistent
 9 adjudication of the liability issues.
 10

11 83. Plaintiff brings all claims in this action individually and on behalf of members of the
 12 Class against Defendants.

13 **COUNT I**
 14 **Violations of California Consumers Legal Remedies Act ("CLRA")**
 15 **Civil Code § 1750, *et seq.***

16 84. Plaintiff repeats the allegations contained in the foregoing paragraphs as if fully set
 17 forth herein.

18 85. Plaintiff brings this Count individually and on behalf of the Class.

19 86. At all relevant times, the securities at issue herein constituted "goods," as that term is
 20 defined in Civ. Code § 1761(a).

21 87. At all relevant times, Plaintiff and members of the Class were "consumers," as that
 22 term is defined in Civ. Code § 1761(d).

23 88. At all relevant times, Defendants provided "services," as that term is defined in Civ.
 24 Code § 1761(b).
 25

26 89. At all relevant times, Plaintiff's purchases of stocks through Robinhood constituted
 27 "transactions," as that term is defined in Civ. Code § 1761(e).
 28

1 90. Defendants' acts, omissions, and statements described in this Complaint were
2 intended to and did result in the sale or lease of services to consumers. Defendants' acts, omissions,
3 and statements violated the CLRA § 1750, *et seq.*, as described herein.

4 91. Defendants' acts, omissions, and statements as alleged herein misrepresented that
5 goods and services had characteristics or benefits which they do not have in violation of Civ. Code
6 § 1770(a)(5). Defendant violated this provision through (1) a lack of internal review concerning
7 customer market order execution quality, (2) omissions related to Robinhood's unusually high
8 payment for order flow rate, (3) misrepresentations that Robinhood's execution quality was
9 comparable to its competitors, and (4) violating its duty of best execution by failing to seek best
10 execution of customer orders.

11 92. Defendants' acts, omissions, and statements as alleged herein represented that the
12 goods were of a particular quality when they were in fact below that quality in violation of Civ.
13 Code § 1770(a)(7). Defendant violated this provision through (1) omissions related to Robinhood's
14 unusually high payment for order flow rate, (2) misrepresentations that Robinhood's execution
15 quality was comparable to its competitors, and (3) violating its duty of best execution by failing to
16 seek best execution of customer orders.

17 93. Defendants' advertised its Products with intent not to sell them as advertised in
18 violation of Civ. Code § 1770(a)(9). Defendants violated this provision because they knew that its
19 execution quality for customer market orders was inferior to their competitors.

20 94. Defendants' acts, omissions, and statements as alleged herein represented that the
21 security transactions involved rights, remedies, and/or obligations which it does not have in
22 violation of Civ. Code § 1770(a)(14). Defendants violation this provision by representing that its
23 securities were bought on behalf of clients at best execution when Defendants knew that they were
24 not.

1 95. Defendants' acts, omissions, and statements as alleged herein represented that the
 2 subject of a transaction had been supplied in accordance with a previous representation, when
 3 Defendants knew they were not, in violation of Civ. Code § 1770(a)(16). Defendants' violated this
 4 provision by representing that Plaintiff and putative Class members market orders would be
 5 executed at best execution when Defendants' knew they would not be.

6 96. Plaintiff and putative Class members were injured by Defendants' misrepresentations
 7 because Plaintiff and putative Class members would not have purchased the Products on the same
 8 terms, if at all, if they had known the true facts and Defendants' Products did not have the quality or
 9 value as promised.
 10

11 97. On or about the date of the filing of this action, Plaintiff notified Defendants in
 12 writing, by certified mail, of the violations alleged herein and demanded that Defendants remedy
 13 those violations. Attached hereto is a declaration on behalf of the Plaintiff pursuant to Cal. Civ.
 14 Code. § 1780(d).
 15

16 98. Plaintiff and members of the putative Class presently seek only injunctive relief
 17 under this Count. If Defendants fail to remedy the violations alleged herein within 30 days of
 18 receipt of Plaintiff's notice, Plaintiff will amend this Complaint to add claims for actual, punitive,
 19 and statutory damages pursuant to the CLRA.
 20

COUNT II
Violations of California Unfair Competition Law ("UCL")
Bus. & Prof. Code § 17200, *et seq.*

21 99. Plaintiff repeats the allegations contained in the foregoing paragraphs as if fully set
 22 forth herein.
 23

24 100. Plaintiff brings this Count individually and on behalf of the putative Class.
 25

26 101. Defendant is subject to the UCL, Bus. & Prof. Code § 17200, *et seq.* The UCL
 27 provides, in pertinent part: "Unfair competition shall mean and include unlawful, unfair or
 28

1 fraudulent business practices and unfair, deceptive, untrue or misleading advertising....” The UCL
2 also provides for injunctive relief and restitution for violations.

3 102. Throughout the Class Period, Defendant committed unfair business acts and
4 practices, as defined by § 17200, by using false and misleading statements to promote the sale of
5 Defendants’ Products, as described herein.

6 103. Defendants’ conduct is unfair in that the harm to Plaintiff and putative Class
7 members arising from Defendants’ conduct outweighs the utility, if any, of those practices.

8 104. Defendants’ conduct described herein, violated the “fraudulent” prong of the UCL
9 by representing that its market execution quality was comparable to its competitors when it knew
10 that it was not.

11 105. Plaintiff and members of the putative Class have suffered injury and actual out of
12 pocket losses as a result of Defendants’ unfair, unlawful, and fraudulent business acts and practices
13 because Plaintiff and putative Class members would not have purchased the Products on the same
14 terms, if at all, if they had known the true facts that Defendants’ Products did not have the quality or
15 value as promised.
16

17 106. Pursuant to *California Business & Professional Code* § 17203, Plaintiff and
18 members of the putative Class are therefore entitled to: (a) an Order requiring Defendants to cease
19 the acts of unfair competition alleged herein; (b) full restitution of all monies paid to Defendants as
20 a result of their deceptive practices; (c) interest at the highest rate allowable by law; and (d) the
21 payment of Plaintiff’s attorneys’ fees and costs pursuant to, *inter alia*, California Code of Civil
22 Procedure § 1021.5.
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COUNT III

**Violations of California False Advertising Law (“FAL”)
Bus. & Prof. Code § 17500, *et seq.***

107. Plaintiff repeats the allegations contained in the foregoing paragraphs as if fully set forth herein.

108. Plaintiff brings this Count individually and on behalf of the putative Class.

109. California’s FAL, (Bus. & Prof. Code § 17500, *et seq.*) makes it “unlawful for any person to make or disseminate or cause to be made or disseminated before the public in this state,...in any advertising device...or in any other manner or means whatever, including over the Internet, any statement, concerning...personal property or services, professional or otherwise, or performance or disposition thereof, which is untrue or misleading and which is known, or which by the exercise of reasonable care should be known, to be untrue or misleading.”

110. Throughout the Class Period, Defendants committed acts of false advertising, as defined by § 17500, by using false and misleading statements to promote services not provided as advertised, as described herein.

111. Defendants knew or should have known, through the exercise of reasonable care that the statements were untrue and misleading.

112. Defendants’ actions in violation of § 17500 were false and misleading such that the general public is and was likely to be deceived.

113. As a direct and proximate result of these acts, consumers have been and are being harmed. Plaintiff brings this action pursuant to § 17535 for injunctive relief to enjoin the practices described herein and to require Defendants to issue corrective statements and disclosures to consumers.

COUNT IV**Violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5**

114. Plaintiff repeats the allegations contained in the foregoing paragraphs as if fully set forth herein.

115. Plaintiff brings this Count individually and on behalf of the putative Class.

116. This Count is brought under Section 10(b) of the Securities Exchange Act, 15 U.S.C. § 78(j)(b), and Rule 10b-5 promulgated thereunder by the SEC.

117. Section 10(b) provides, in pertinent part, “It shall be unlawful...[t]o use or employ, in connection with the purchase or sale of any security registered on a national securities exchange...any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the Commission may prescribe as necessary and appropriate in the public interest or for the protection of investors.”

118. Rule 10b-5 provides, in pertinent part, “It shall be unlawful...(a) [t]o employ any...scheme...to defraud, (b) [t]o make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or (c) [t]o engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.”

119. Robinhood had a duty to disseminate timely, accurate, and truthful information with respect to its routing and execution quality of customer orders.

120. Additionally, Defendants owed customers, like Plaintiff and members of the putative Class, a duty of best execution. This duty required Defendants, as a broker-dealer, to seek the best price reasonably available for their customers’ orders.

121. During the Class Period, Defendants engaged in a scheme in which it knowingly or recklessly engaged in acts and practices which operated as fraud and/or deceit upon Plaintiff and

1 members of the putative Class by uniformly denying its customers best execution, including
2 opportunities for price improvement.

3 122. During the Class period, Defendants made numerous untrue statements and omitted
4 material facts necessary to make the statements made not misleading in light of the circumstances
5 under which they were made.

6 123. During the Class period, Defendants engaged in acts, practices, and courses of
7 conduct which operated as fraud and deceit upon its customers. Such acts and practices include
8 negotiating unusually high payment for order flow rates with principal trading firms and, as a result,
9 routing and executing customer orders at inferior execution rates.

10 124. Had Plaintiff and members of the putative Class been aware of Defendants scheme
11 they would not have chosen to open a brokerage account and execute market orders with
12 Robinhood.

13 125. Defendants knew that by failing to provide its clients with the best execution for
14 their orders they would, and did, incur economic harm. Such harm arose from Defendants
15 executing customers' trades at prices less favorable than the best price available, including chances
16 for price improvement.

17 126. Pursuant to the aforementioned plan, scheme, and course of conduct, Defendants,
18 including senior Robinhood personnel, prepared and disseminated misleading statements and
19 reports to that were designed to convince the general public, including Plaintiff and putative Class
20 members, that Defendants were providing commission free trading while maintaining best
21 execution prices for their customers. However, Defendants knew or should have known that this
22 was not true and did not disclose such information to the general public. Such statements and
23 omissions were materially false and misleading.

1 127. Such practices were undertaken by Robinhood, including senior Robinhood
2 personnel, for the purpose of maximizing its payment for order flow, despite this practice violating
3 Defendants' duty of best execution.

4 128. During the Class Period, Plaintiff and members of the putative Class placed market
5 orders through Robinhood with reasonable expectation of receiving best execution. Such
6 reasonable expectations were based on Defendants misleading statements and omissions as
7 described herein, resulting in economic injury and damages.

8 129. Defendants' scheme and course of conduct had a uniform effect on Plaintiff and
9 members of the putative Class by routing customer orders through principal trading firms that
10 Robinhood negotiated an unusually high payment for order flow, causing uniform inferior execution
11 quality on those orders compared to the execution quality of other principal trading firms in the
12 market.
13

14 130. Defendants' scheme and course of conduct constituted a fraud on the market, as the
15 price at which each stock was traded on Robinhood's platform was impacted due to Defendants'
16 unusually high payment for order flow.
17

18 131. Defendants' scheme and course of conduct as alleged herein violated Section 10(b)
19 of the Securities Exchange Act and Rule 10b-5 promulgated thereunder.

20 132. During the Class Period, better prices were available to Plaintiff and putative Class
21 members on each market order they placed, but these prices were not provided by Defendants.
22

23 133. As a direct and proximate result of Defendants conduct, Plaintiff and members of the
24 putative Class have suffered economic damages related to the allegations described herein.

25 **COUNT V**
26 **Negligent Misrepresentation**

27 134. Plaintiff repeats the allegations contained in the foregoing paragraphs as if fully set
28 forth herein.

1 135. Plaintiff brings this Count individually and on behalf of the putative Class.

2 136. Defendants represented to Plaintiff and Class members that Robinhood provides
3 commission free trading at an execution price comparable to its competitors. Such statements
4 constitute material facts represented by Defendants to Plaintiff and members of the putative Class
5 that Defendant knew or should have known was not true.

6 137. Defendants, including senior Robinhood personnel, knew that these representations
7 were not true, as they specifically negotiated unusually high payment for order flow rates with
8 principal trading firms. Defendants knew or should have known that its payment for order flow
9 system resulted in inferior execution quality compared to its competitors.

10 138. Defendants intentionally concealed, and removed, any information concerning their
11 payment for order flow system.

12 139. Defendants never intended to provide consumers commission free trading at
13 execution prices comparable to its competitors. Defendants knew or should have known that, due to
14 its unusually high payment for order flow, its inferior execution quality typically exceeded the
15 commission charged by its competitors.

16 140. The principal trading firms could have offered Defendants' clients better execution
17 quality, including the opportunity for price improvement, if not for Defendants' unusually high
18 payment for order flow rates.

19 141. Defendants marketed to the general public its commission free trading as a way to
20 differentiate itself from competitors. Defendants intended for Plaintiff and members of the putative
21 Class to rely on such representations.

22 142. Plaintiff and members of the putative Class suffered economic harm through the
23 actions and conduct described herein.
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143. As a direct and proximate result of Defendants' misrepresentations, Plaintiff and members of the putative Class have been damaged in an amount to be determined at trial.

COUNT VI

Breach of Implied Covenant of Good Faith and Fair Dealing

144. Plaintiff repeats the allegations contained in the foregoing paragraphs as if fully set forth herein.

145. Plaintiff brings this Count individually and on behalf of the putative Class.

146. As described herein, Defendants charged unusually high payment for order flow rates at the expense of Plaintiff and Class members order execution quality. In doing so, Defendants prioritized their own profits at the expense of its customers.

147. Defendants intentionally concealed from Plaintiff and putative Class members any information regarding its payment for order flow system.

148. Defendants unfairly interfered with Plaintiff's and Class members' rights to receive the full benefit of their trades on Defendants' platform.

149. Defendants' conduct has breached the implied covenant of good faith and fair dealing because they have caused and continue to cause Plaintiff and putative Class members damages in an amount to be determined at trial.

COUNT VII

Breach of Fiduciary Duty

150. Plaintiff repeats the allegations contained in the foregoing paragraphs as if fully set forth herein.

151. Plaintiff brings this Count individually and on behalf of the putative Class.

152. As a broker-dealer and provider of financial services, Defendants were fiduciaries to Plaintiff and members of the putative Class. As such, Defendants owed them the highest good faith and integrity in performing financial services and acting as securities brokers on their behalf.

153. As described herein, Defendants breached their fiduciary duties to Plaintiff and putative Class members by failing to provide adequate trade execution quality by prioritizing their own profits through an unusually high payment for order flow system at the expense of their customers.

154. In breaching their fiduciary duty, Defendants' conduct has caused and continues to cause Plaintiff and putative class members economic damages in an amount to be determined at trial.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff, individually and on behalf of all others similarly situated, seeks judgment against Defendants, as follows:

- (a) For an order certifying the Class under Rule 23 and naming Plaintiff as the representative of the Class and Plaintiff's attorneys as Class Counsel to represent the Class;
- (b) For an order declaring that the Defendants' conduct violates the statutes referenced herein;
- (c) For an order finding in favor of Plaintiff and the Class on all counts asserted herein;
- (d) For compensatory, punitive, and statutory damages in amounts to be determined by the Court and/or jury;
- (e) For prejudgment interest on all amounts awarded;
- (f) For an order of restitution and all other forms of equitable monetary relief;
- (g) For injunctive relief as pleaded or as the Court may deem proper; and
- (h) For an order awarding Plaintiff and the Class their reasonable attorneys' fees and expenses and costs of suit.

DEMAND FOR TRIAL BY JURY

Pursuant to Federal Rules of Civil Procedure 38(b), Plaintiff demands a trial by jury of all issues so triable.

1 Dated: January 29, 2021

Respectfully submitted,

2 **BURSOR & FISHER, P.A.**

3 By: /s/ Sarah N. Westcot
4 Sarah N. Westcot

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14 *Attorneys for Plaintiff*

CLRA Venue Declaration Pursuant to California Civil Code Section 1780(d)

I, Sarah Westcot, declare as follows:

1. I am counsel for Plaintiff, and I am a partner at Bursor & Fisher, P.A. I make this declaration to the best of my knowledge, information, and belief of the facts stated herein.

2. The complaint filed in this action is filed in the proper place for trial because Defendants because many of the acts and transactions giving rise to this action occurred in this District, and because Defendants reside in this District.

3. Plaintiff Sarkhan Nabi is a resident of Tarzana, California.

4. Both Defendant Robinhood Financial, LLC and Robinhood Securities, LLC are Delaware limited liability companies with its principal places of business located at 85 Willow Rd., City of Menlo Park, California.

I declare under penalty of perjury under the laws of the United States and the State of California that the foregoing is true and correct, executed on January 29, 2021 at Miami, Florida.

/s/ Sarah Westcot
Sarah N. Westcot